THE MAGAZINE FOR GROWING COMPANIES

Inc.®

OCT. 1990
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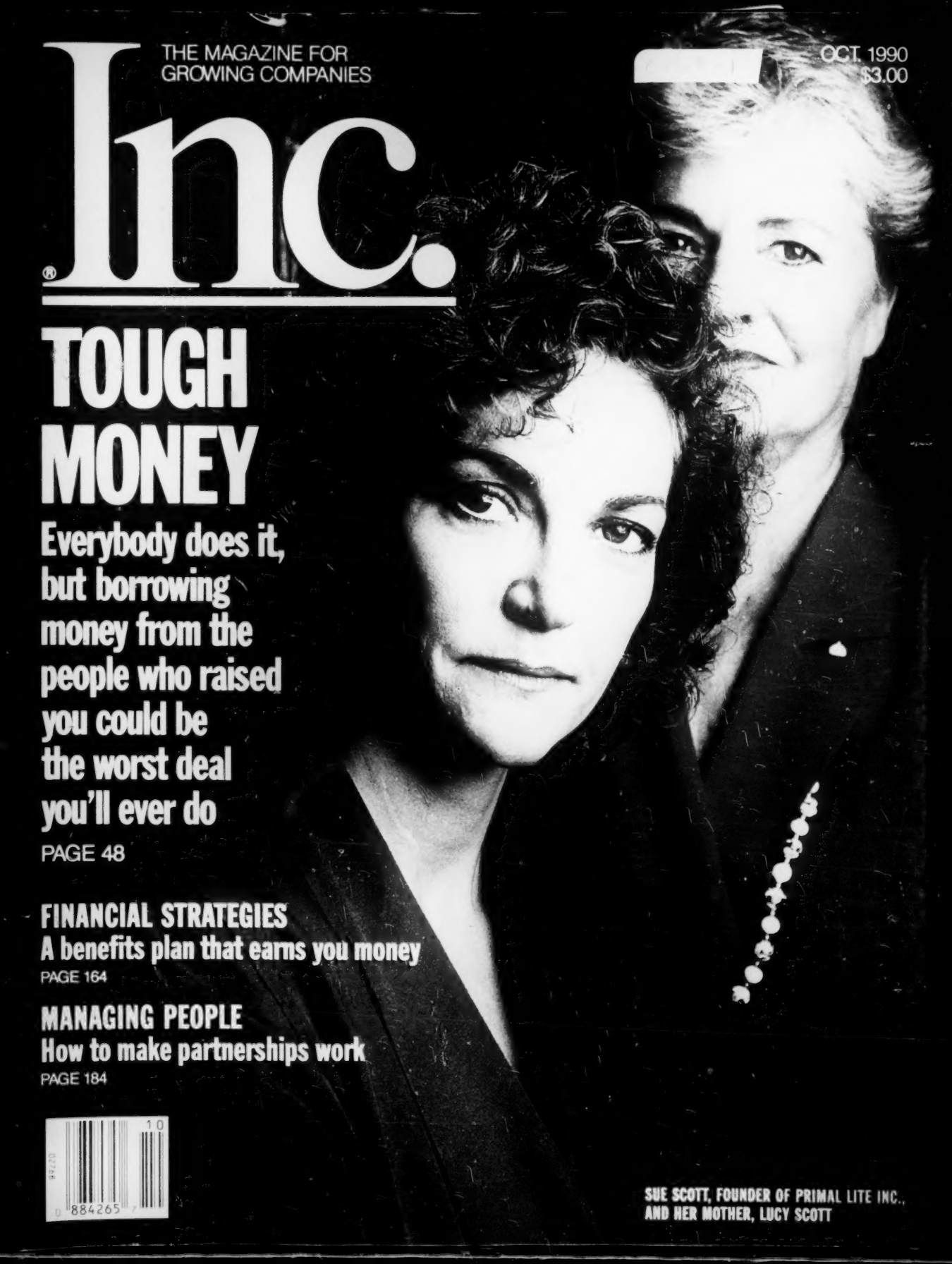

TOUGH MONEY

Everybody does it, but borrowing money from the people who raised you could be the worst deal you'll ever do

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FINANCIAL STRATEGIES
A benefits plan that earns you money
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How to make partnerships work
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SUE SCOTT, FOUNDER OF PRIMAL LITE INC., AND HER MOTHER, LUCY SCOTT

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INC. COVER STORY

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Their savings went into their son's start-up

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A future that depends on small, innovative companies

COVER PHOTOGRAPH
by
Ed Kashi

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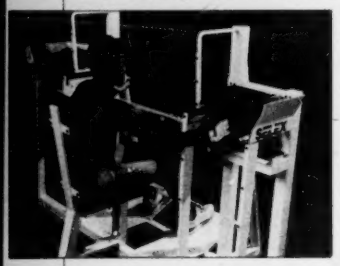
OCTOBER 1990 VOL. 12 NO. 10

NEW BUSINESSES

UNIPHOTO

CARRIED AWAY A Florida inventor has come up with a gym contraption that eliminates the need to lug free weights around. The Selex machines offer the convenience of Nautilus, housing weights alongside a barbell. Weights can be added or taken away with the flip of a tab. The founders expect the system, licensed to Pyramid Fitness Industries, of Sharpsville, Pa., to be easy to sell, since it's a



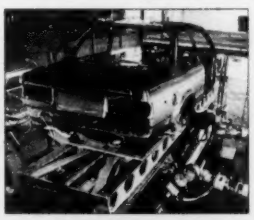
variation on an established product, not a new concept.

■

POLLUTION CONTROL Even public relations people are narrowing their markets. One former White House staffer and Superfund consultant has started a firm to handle the touchy publicity surrounding hazardous-waste cleanups and the siting of new incinerators and landfills. By subletting space from a prominent environmental law firm in Washington, D.C., Environmental Issues Management gains office services and prospective contacts at no extra cost.

■

IT'S A SMALL WORLD In Sweden, scientist Lennart Alfredeen developed a heating process that Volvo and Saab have used to make metal parts more quickly and cheaply. But it wasn't until he visited the United States that he was offered financing to start a company. Now Magnatech is up and running in Bettendorf, Iowa—courtesy of state and local government loans and an alliance with another manufacturer—selling the Speed Heater to customers both here and in Europe.



UNIPHOTO

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ONE PLUS ONE IS THREE The premise is that the whole is greater than the sum of its parts. Polymer Solutions, in Worthington, Ohio, does contract product development for manufacturers; it was formed by two big companies, GE Plastics and the design firm Fitch Richardson-Smith. As a so-called company without walls, it draws ad hoc teams from both parents for each assignment, touting fast turnaround time.

The Accidental Businessman

Usually people start companies because they've either spotted a need and created a product, or invented a product and located a need. But other folks launch businesses by just sort of stumbling into them.

Take Bruce Johnson, who tinkered with computers when he wasn't running his movie theater or video store in Osage, Iowa. When the local police department needed help interpreting bids on a computer system, he agreed to help.

The police wanted a system that would use automatic phone calls to check on housebound elderly people, but none of the proposals had the right software. So Johnson wrote some. "I was new to the community," he says, "and figured it was a good public service." He got $300 for expenses.

STEVE NIEDORF

Northland Innovation's Bruce Johnson

Soon after going on-line, the network saved its first life. Associated Press picked up the story, then "Good Morning America." As hundreds of calls poured in, Johnson, who held the copyright, took the hint. Year-old Northland Innovation Corp. has sold 75 Are You OK? systems, with marketing help from an Osage police officer.

NOTEBOOK

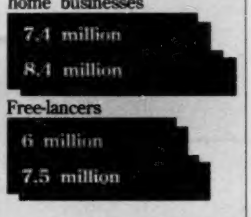
Creativity, not capital, is the resource of choice for compulsive entrepreneurs. So suggest preliminary findings of a study of prolific business founders by the Wharton School. While first-time entrepreneurs also depend on imagination, those who start many companies often eschew the use of available cash to pursue the route novices take by necessity. Why the miser's touch? It keeps them from getting lazy, they say.

■

So some like to depend on creativity. Others still lust after cold cash. For them, DataMerge, a new software firm in Denver, sells a $350 database of finance sources.

■

THE HOME ECONOMY



(Nearly 14% more people are running home businesses this year than last, while 25% more people are free-lancing.)

Source: Link Resources, New York City

■

"It's in to say, 'I have a home-based business.' It's the newest status symbol." —Coralee Kern, director of the National Association of Cottage Industries

HANDS ON

A MANAGER'S NOTEBOOK

TRAINING

Extra, Extra, Read All About It

"I don't have time to read all the trade magazines and keep up with technology," says Clay Page, CEO of Co-op Building Consultants, in Corpus Christi, Tex. But he doesn't let them pile up. Instead, at his residential construction company, he assigns masons to read up on the latest bricklaying techniques, carpenters to study stories about the newest saws, and framers to evaluate articles on aluminum versus wooden two-by-fours.

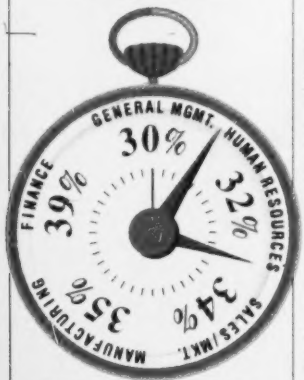
The reading helps employees keep in touch with what's going on beyond the job site. "These employees are helping to manage the company," says Page, who reads only what employees clip from the magazines. In 1989 Co-op's 54 employees improved productivity 220% and reached $2.7 million in sales. ❑

JOHN KENNUS

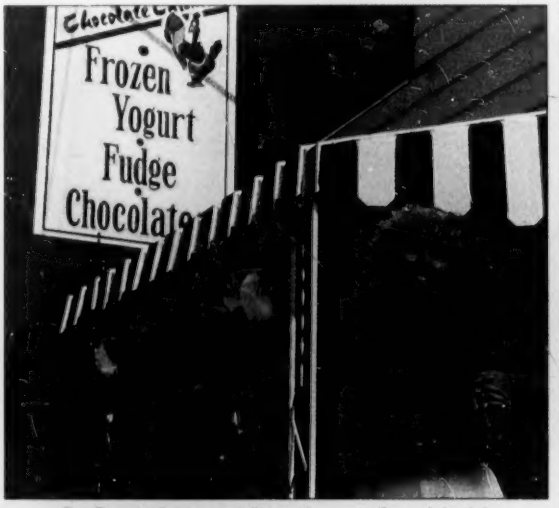
MEETINGS

UNPRODUCTIVE DISCUSSIONS

In your department how much time in meetings is wasted ?



Source: Survey of more than 1,000 executives, Harrison Conference Services Inc., Glen Cove, N.Y., and Hofstra University, Hempstead, N.Y., 1990



Pat Bruner devotes one day each year to financial advice.

STRATEGIC PLANNING

The Gang's All Here

If you don't have an outside board of directors, you might want to take better advantage of the advisers you do have—your banker, accountant, and lawyer. Once a year Pat Bruner, based in Green Bay, Wis., and president of TLC Childcare Centers Inc. and The Chocolate Chicken, gathers her advisers at the bank or in her accountant's office for a day of thrashing out issues of expansion, acquisition, and capital expenditures. "It's a way to explain my vision," says Bruner, "and it keeps me from playing telephone tag and having someone—like the banker—veto my plans later."

The sessions cost about $1,200 in accountant and attorney fees. "I can't stress how cheap that is to get so much worked out," says Bruner, who plans to open two more day-care centers and start a day-care magazine. ❑

CUSTOMER RELATIONS

Most Valuable Players

While baseball fans cheer at the World Series this month, American Information Systems customers will be fielding fly balls batted by AIS employees. Seven years ago AIS was a Fort Lauderdale, Fla., start-up eager to build customer loyalty for its integrated telephone and computer systems. CEO Jack Namer found baseball to be the ticket.

Today each of AIS's 61 offices has sold customers on a 10-month-season baseball program playing against AIS-employee and other customer teams. The top teams play off in a championship series at the New York Yankees' spring-training field in Fort Lauderdale. AIS, today a $15-million company, picks up the tab for the weekend series. "If they switch vendors, our customers have to turn in their uniforms," says Namer. "They're loyal." ❑

RECRUITING

Tapping the Big Boys

You say you're trying to grow your company? Where do you turn to find top-notch employees? Try the human resources departments of corporations that are downsizing. They'll send you free books filled with employees' résumés, from difficult-to-find factory floor workers to R&D engineers.

When Eric Giler, president of Brooktrout Technology Inc., a maker of electronic-messaging systems in Needham, Mass., doubled the payroll from 20 to 40 people in six months, he found five engineers that way. By not using a corporate headhunter, he estimates he saved $30,000. "It's tough to get hired by these companies," says Giler. "They've done a first cut for us." ❑

ENVIRONMENT

Reduce and Recycle

Don't know where to start your company's waste-reduction program? The Washington State Department of Ecology has two free booklets, printed on recycled paper, that can point you in the right direction:

■ *Success Through Waste Reduction* gives case histories of eight small to midsize companies' programs for a variety of waste and recycling needs.

■ *Waste Reduction in Your Business* features a due-diligence form to help you analyze what your company can do.

Together, the booklets can make what might have been a formidable project a breeze. Call the department's Business Assistance Unit at (206) 438-7585, or in Washington call (800) RECYCLE. ❑

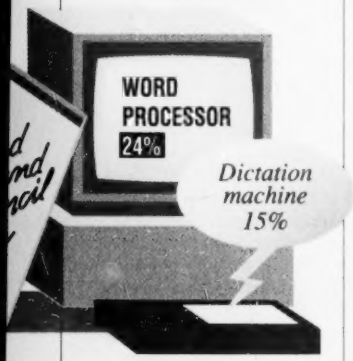
CHARTS: ELIOT BERGMAN

HANDS ON

COMMUNICATION

HOW USER FRIENDLY IS IT?

What executives use to write letters



Source: Survey of 312 executives, John Rost Associates, New York City, 1990

PAUL HAYNES

MARKETING

You Can Get There from Here

The whole purpose of business cards is to make sure people not only remember you but also know how to reach you in the future. Russell Vernon, president of West Point Market, an $8-million Akron supermarket, understands all that and takes it a step further. On the back of his card is a map showing how to get to his supermarket—famous locally for its selection of gourmet foods and meats—from almost anywhere.

"I decided that we couldn't grow by adding stores," says Vernon. "We'd lose the level of service we're known for if we spread management too thin." So instead of bringing his products to a wider customer base—by adding more stores—he has decided to bring customers to him by providing the map. Says Vernon, "We have customers from as far as Cleveland, 35 miles away." ❑

MARKET RESEARCH

Dogs off the Shelf

Chairman Norman Melnick

Norman Melnick, chairman of Pentech International Inc., an Edison, N.J., maker of pens, pencils, and markers, is proud of his successful 50-product line. But occasionally even he produces an item no one wants to buy.

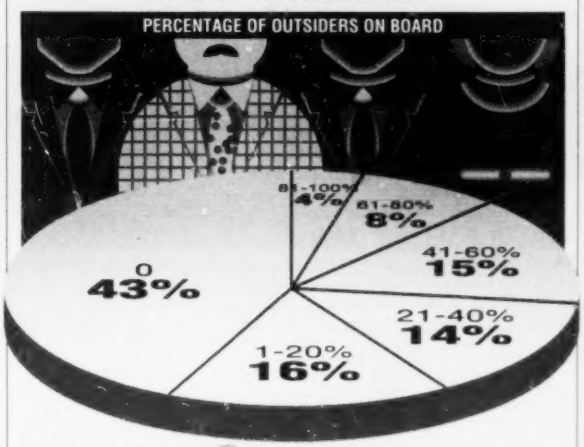
When that happens, Melnick does everything in his power to get the product off the shelves quickly. He gives the retailer a choice between accepting money that can be used to advertise the product or simply sending the product back at Pentech International's expense.

"If a product isn't selling, I want to get it out of there because it's taking up space that can be devoted to another part of my line that moves," says Melnick. "Besides, having a product languish on the shelves doesn't do much for our image." ❑

BOARD OF DIRECTORS

INSIDE JOB

More than two-thirds of INC. 500 companies surveyed have boards. But few take well to outside directors.



Source: INC. survey of 456 companies reporting a four-year growth rate of 573% or higher since 1984

CEO'S READING LIST

The Chalice and the Blade

by Riane Eisler
Harper & Row Publishers Inc., 1987

"Eisler traces how men and women relate from historical, anthropological, and archaeological perspectives. She describes how early societies were based on partnerships—what we'd now call the more 'female' style—and that sometime around 1200 B.C. we shifted toward a more dominant, hierarchical structure. She concludes that we're moving back toward a partnership model, which we ought to expedite.

"What's popular in business now is the partnership model, rather than the dominator model. In my own management style, when a decision needs to be made, I can be direct and decisive, but I like to let people decide how and when they do their work and how they're compensated. As my company grows, and I'm putting more structures in place, I've been struggling with how to keep what's been positive about being less structured.

"As women, we don't give ourselves enough credit. We don't ask enough about how much money we make, how much power we have, how much impact we can have. Many of us have an obligation to step forward as role models and shake up the system."

—Susan Marks, president, ProStaff Personnel Services, Milwaukee

DILIP CHAUHAN

HANDS ON

INCENTIVES

Dollars for Kudos

"We want this to be a customer-service-driven organization," says Bill Wheeler, president and general manager of Cellular One, of Indianapolis. So he got his six phone installers to approve a simple bonus plan that accounts for more than 10% of their pay.

As part of the plan, each time a customer commends an employee's work—in a letter, in a survey, or to Wheeler in person—that employee receives $10. Each time a customer complains about an employee, $10 is deducted, and $20 is deducted every time a customer's vehicle is damaged.

"Installers really go out of their way for customers now," says Wheeler, who estimates damages to customers' vehicles have plummeted 70%, compliments have tripled, and sales have grown by 613% since the program was started three years ago. ❑

ON THE CHEAP

TEXT-SEARCH SOFTWARE *By Cary Lu*

The hard disk drive on your desktop computer functions as the digital equivalent of a file cabinet, complete with a similar problem: it's easy to misfile documents. Text-search software can help in a variety of ways. You can find misplaced files by searching for a word or phrase, and the software will display every file that contains the text on the hard disk. When you expect your search might turn up a lot of files, you can exclude some files by using qualifiers such as "and," "not," or "or" and retrieve only those files you want. Using such qualifiers is called Boolean searching.

Effective text-search software need not be expensive:

■ **GOfer** (about $50) from Microlytics Inc., in Rochester, N.Y., for IBM PCs and Macintoshes scans every portion of the hard disk you specify. As a result, a search may take a minute or more with a large hard disk.

■ **Dragnet** (about $100) from Access Softek, in Berkeley, Calif., is a search program that works under Microsoft Windows on IBM PCs and can find text within graphics files. If you are searching for a quarterly report, Dragnet will dig up not only letters and reports but also graphs.

■ **Magellan** (about $120) from Lotus Development Corp., in Cambridge, Mass., is a multipurpose IBM PC program with text-searching capabilities. It indexes your hard disk, which makes searching fast, a few seconds at most.

■ **On Location** (about $80) from ON Technology, in Cambridge, Mass., for the Macintosh also indexes for quick searching, but it cannot do Boolean or phrase searches. ❑

MANAGING PEOPLE

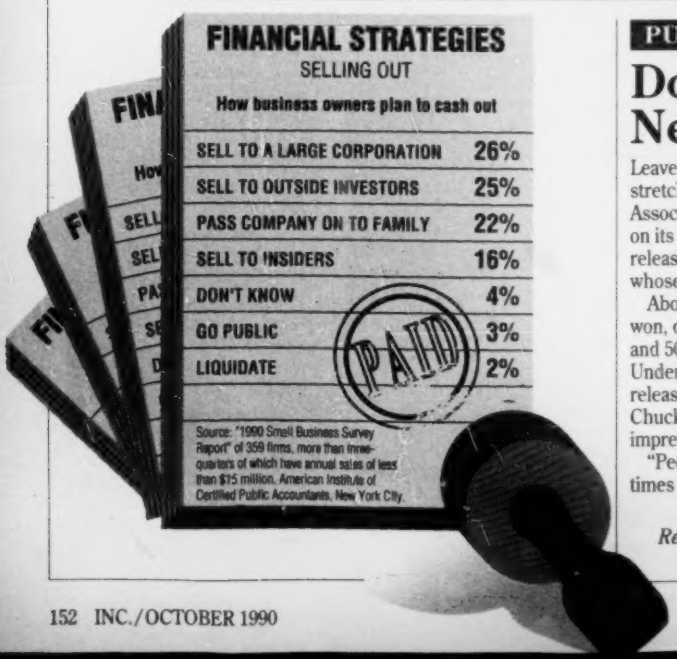
Second Founding

Scott Gibson likes a good party, but he decided to call Sequent Computer Systems' seventh anniversary bash a second founding. "We wanted to get 1,300 people as charged up as the founding team," says Gibson, president of the $146-million Beaverton, Ore., company.

So Sequent posted billboards around town announcing the occasion, hired a band, and arranged to close off a few blocks in downtown Portland. The second founding featured a multimedia show, which included slides of employees and their kids and snatches of President John F. Kennedy's speech about sending a U.S. astronaut to the moon.

"It really worked—we had people crying at the end of this thing," Gibson says. And the new mission was clear: "We want to build a billion-dollar global company we can be proud of." ❑

BRUCE SANDERS


FINANCIAL STRATEGIES
SELLING OUT
How business owners plan to cash out
SELL TO A LARGE CORPORATION 26%
SELL TO OUTSIDE INVESTORS 25%
PASS COMPANY ON TO FAMILY 22%
SELL TO INSIDERS 16%
DON'T KNOW 4%
GO PUBLIC 3%
LIQUIDATE 2%
PAID
Source: "1990 Small Business Survey Report" of 359 firms, more than three-quarters of which have annual sales of less than $15 million. American Institute of Certified Public Accountants, New York City.

PUBLIC RELATIONS

Double-Barreled News Releases

Leave it to a public relations firm to teach other businesses how to stretch their own PR dollars. Three years ago Floathe Johnson Associates, a firm in Kirkland, Wash., began sending news releases on its own progress directly to prospective clients. Today the releases are the top generator of new business leads for the firm, whose annual sales are $25 million.

About once a month an announcement of a new account, award won, or new hire goes out to 100 members of the press, 150 clients, and 500-plus prospects. One to five prospects call to learn more. Under such circumstances, it can be tempting to turn a news release into a sales pitch. Resist the urge, senior vice-president Chuck Pettis says, or the release will alienate the press and won't impress prospects.

"People say they read about us in the paper," Pettis says. "Nine times out of 10 I bet they are remembering the press release." ❑

Reported by Teri Lammers, Leslie Brokaw, Paul B. Brown, Susan Greco, and Martha E. Mangelsdorf